

Rev. Rul. 55-495, 1955-2 C.B. 259, modified Rev. Rul. 75-199.

The M association which provides for the payment of life, sick, accident or other benefits to members or their dependents, but does not operate under the lodge system, or for the exclusive benefit of the members of an organization so operating, is not entitled to exemption from Federal income tax as an organization described in section 501(c)(8) of the Internal Revenue Code of 1954.

The M association falls within a class ordinarily associated with organizations not organized for profit, but operated exclusively for the promotion of social welfare, and is exempt from Federal income tax as an organization described in section 501(c)(4) of the Internal Revenue Code of 1954.

Advice has been requested whether the M association described below qualifies for exemption from Federal income tax under section 501(c)(8) of the Internal Revenue Code of 1954.

The M association was organized as a local association for the purpose of assisting its members in time of sickness, distress, and in case of death. It has no parent organization or subordinate branches. The membership is restricted to individuals who subscribe to a designated religious creed, are of good character and health, and have the ability to earn a livelihood. The association holds periodic meetings, operates a loan fund for members and administers a plan providing for the payment of sick, accident and death benefits to members. Its income is derived mainly from membership dues and is used principally for the payment of operating expenses, benefits to members and for donations to charitable organizations.

Section 501(c)(8) of the Code describes certain fraternal beneficiary societies, orders, or associations which are exempt from taxation under section 501(a) of the Code. The exemption applies to fraternal organizations which operate under the lodge system, or for the exclusive benefit of the members of a fraternity itself operating under the lodge system, and which provide for the payment of life, sick, accident or other benefits to members of the organizations or their dependents.

Section 39.101(3)-1 of Regulations 118, made applicable under the 1954 Code by virtue of Treasury Decision 6091, C.B. 1954-2, 47, provides that "operating under the lodge system" means carrying on activities under a form of organization that comprises local branches, chartered by a parent organization and largely self-governing, called lodges, chapters, or the like. On the basis of the facts in the instant case, it is held that the association is not operating under the lodge system or for the exclusive benefit of the members of an organization so operating.

Accordingly, such association is not entitled to exemption from Federal income tax as organization described in section 501(c)(8) of the Internal Revenue Code of 1954.

It is apparent, however, that the purposes and activities of the association are of a class ordinarily associated with organizations not organized for profit but operated exclusively for the promotion of social welfare as described in section 501(c)(4) of the Code. Accordingly, it is further held that the M association is entitled to exemption from Federal income tax under the provisions of section 501(a) of the Code as an organization described in section 501(c)(4) of the Internal Revenue Code of 1954.